VeriFone Holdings, Inc.
Form S-1/A
September 19, 2005

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As filed with the Securities and Exchange Commission on September 19, 2005

Registration No. 333-127998

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3
TO
FORM S-1
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

VeriFone Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	3578	04-3692546
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification in Number)	(I.R.S. Employer Identification No.)

2099 Gateway Place, Suite 600
San Jose, California 95110
(408) 232-7800
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion. Dated September 19, 2005.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

11,000,000 Shares

COMMON STOCK

We are selling 2,500,000 shares of common stock and the selling stockholders, including certain members of our management, are selling 8,500,000 shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol "PAY". The last reported sale price of the common stock on September 16, 2005 was $20.37 per share.

The underwriters have an option to purchase up to a maximum of 1,650,000 additional shares from the selling stockholders, to cover over-allotment of shares.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to VeriFone Holdings, Inc.	Proceeds to Selling Stockholders
Per Share	$	$	$	$
Total	$	$	$	$

Delivery of the shares of common stock will be made on or about , 2005.

JPMorgan **Lehman Brothers**

Credit Suisse First Boston **Goldman, Sachs & Co.** **Wachovia Securities**

SunTrust Robinson Humphrey

Prospectus dated , 2005.

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized anyone to provide you with information that is different from that contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Except as otherwise indicated, market data and industry statistics used throughout this prospectus are based on independent industry publications and other publicly available information. Although we believe that these data and statistics are reasonable and sound, they have been prepared on the basis of underlying data to which we do not have access, and which we cannot independently verify.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information in this prospectus is current only as of its date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Before making an investment decision, you should read the entire prospectus carefully, including the section entitled "Risk Factors," our financial statements and the related notes included elsewhere in this prospectus.

VeriFone

We are a leading global provider of technology that enables electronic payment transactions and value-added services at the point of sale. Since 1981, we have designed and marketed system solutions that facilitate the long-term shift toward electronic payment transactions and away from cash and checks. We have one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment systems worldwide. Our net revenues grew organically by 14.8% and 15.0%, respectively, in the years ended October 31, 2003 and 2004, in each case as compared with the prior year, reaching $390.1 million in the year ended October 31, 2004. Our net revenues grew by 26.1% to $354.9 million for the nine months ended July 31, 2005 as compared to the nine months ended July 31, 2004.

Our system solutions consist of point of sale electronic payment devices that run our proprietary and third party operating systems, security and encryption software and certified payment software as well as third party, value-added applications. Our system solutions are able to process a wide range of payment types including signature and PIN-based debit cards, credit cards, contactless / radio frequency identification, or RFID, cards, smart cards, pre-paid gift and other stored-value cards, electronic bill payment, check authorization and conversion, signature capture and electronic benefits transfer, or EBT. Our proprietary architecture was the first to enable multiple value-added applications, such as gift card and loyalty card programs, healthcare insurance eligibility and time and attendance tracking, to reside on the same system without requiring recertification upon the addition of new applications. Today we are an industry leader in multi-application payment systems deployments.

Our customers are primarily global financial institutions, payment processors, petroleum companies, large retailers, government organizations and healthcare companies, as well as independent sales organizations, or ISOs. They choose our system solutions for their robust functionality, ability to be compatible with previously deployed VeriFone system solutions, intuitive user interface and modular design. The functionality of our system solutions includes transaction security, connectivity, compliance with certification standards, as well as the flexibility to execute a variety of payment and non-payment applications on a single system solution.

We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. These advantages include our globally trusted brand name, large installed base, history of significant involvement in the development of industry standards, global operating scale, customizable platform and investment in research and development. We believe that these advantages position us well to capitalize on key industry trends.

Industry Opportunity

We believe the industry trends of increasing intelligence at the point of sale, the global shift toward electronic payment transactions and away from cash and checks and increasing focus on security and interoperability will drive growth in demand for electronic payment systems.

Increasing Intelligence at the Point of Sale

- Advances in microprocessing technology, storage capacity and software are enabling increasing complexity and functionality of electronic payment systems at the point of sale;

Development of value-added applications such as gift card and loyalty card programs, health care insurance eligibility and time and attendance tracking is driving demand for electronic payment systems that support multiple applications;

Broadening use of wireline and wireless internet protocol, or IP, networks is opening new markets for electronic payment systems; and

Greater competition among card associations, card issuers and payment processors is driving innovation at the point of sale, including the incorporation of new technologies such as contactless / RFID and biometrics.

Global Shift Toward Electronic Payment Transactions and Away from Cash and Checks

Increased consumer adoption of electronic payments is driving greater usage of debit and credit card-based payments, especially PIN-based debit;

Advances in wireless data networking are enabling greater usage of electronic payment systems, particularly in emerging markets such as Russia, India and China; and

Government initiatives to increase VAT and sales tax collection are promoting the distribution of electronic payment systems in emerging markets.

Increasing Focus on Security and Interoperability

Evolving card association and other industry standards are leading to replacement of existing electronic payment systems; and

Evolving country-specific security standards are requiring additional customization of electronic payment systems.

Competitive Strengths

We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. These include:

Trusted Brand Name. The VeriFone brand has a strong global reputation for quality, reliability and data security. We believe that financial institutions, payment processors and merchants trust our system solutions to handle critical financial transactions in a secure and user-friendly operating environment.

Large Installed Base. We believe that we have a larger installed base of electronic payment systems than any of our competitors. We believe that customers typically purchase electronic payment systems from the incumbent provider in order to reduce risk and to avoid the costs of implementing a new electronic payment system from a different provider. In addition, our large installed base of electronic payment systems makes our proprietary operating systems a preferred choice for third party developers of value-added applications seeking broad distribution of their applications.

Global Scale. We are one of the largest worldwide providers of electronic payment system solutions for use at the point of sale. We have developed a global network of 26 sales and marketing offices and 22 development centers. We believe that our scale and broad geographic coverage enable us to market and distribute our products more effectively and in more markets than most of our competitors, and to provide our customers with innovative, comprehensive and customized system solutions.

Leading Research and Development Initiatives and Technology Innovation. We are a leading innovator of technology that enables electronic payment transactions and value-added services at the point of sale. In the year ended October 31, 2004, we launched 20 new system solutions and 195

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custom solutions. Our core operating environment is a secure, multi-tasking and multi-application proprietary operating system with a consistent and intuitive user interface that allows payment processors or financial institutions to directly or remotely deliver predominantly third party value-added applications without having to recertify existing payment applications. This dramatically reduces the time and cost for our customers to deploy additional functionality to their systems. We believe this capability is a distinguishing feature of our architecture. The modular configuration of our electronic payment systems offers our customers flexibility to support a variety of connectivity options, including wireline and wireless IP technologies. In addition, our modular software development environment enables our system solutions to be customized to meet our customers' specific needs through internally developed or third party applications.

Broad Set of Industry Certifications. Our system solutions are certified by major payment processors, card associations and international card standards organizations. The knowledge of certification processes that we have gained over our history and through our participation in international standards organizations enables us to manage the lengthy and expensive certification process effectively. As a result, we believe that we are able to bring innovative products to market faster than our competitors.

Proven Track Record of Execution. Our senior management team has increased net revenues by 14.8% and 15.0% over the past two fiscal years, respectively, from $295.6 million in the year ended October 31, 2002 to $390.1 million in the year ended October 31, 2004, while significantly increasing profitability, working capital efficiency and operating cash flow.

Growth Strategy

Our objective is to enhance our position as a leading provider of technology that enables electronic payment transactions and value-added services at the point of sale. The key elements of our strategy are to:

Increase Market Share in North America and Europe. We intend to continue to seek opportunities to expand our market share in North America and Europe by leveraging our brand, scale, technology and distribution channels. We plan to capitalize on industry trends, including our customers' increasing focus on security, growing prevalence of PIN-based debit, evolving communication technologies and greater availability of value-added services at the point of sale. Furthermore, we intend to continue to penetrate key sales channels and further strengthen our relationships with ISOs in North America.

Further Penetrate Attractive Vertical Markets. We plan to continue to increase the functionality of our system solutions to address the specific needs of key vertical markets. We currently provide system solutions that are customized for the needs of our financial services, petroleum company, retail, government and healthcare customers. We intend to continue to focus on these attractive vertical markets, as well as increase our penetration of new markets such as quick service restaurants, or QSRs.

Capitalize on High Growth Opportunities in Emerging Markets. We seek to establish a leading position in emerging, high growth electronic payment markets in Eastern Europe, Asia and Latin America. In order to do so, we intend to continue to invest in additional sales and marketing and research and development resources targeted towards these regions. We have already achieved a leading position in Russia, Poland and Mexico and intend to grow our presence further in additional markets, such as China, India and Brazil, where demand for electronic payment systems is growing rapidly.

Pursue Selective, Strategic Acquisitions. We may augment our organic growth by acquiring businesses, product lines or technologies. Our acquisition strategy is intended to broaden our suite of electronic payment solutions, expand our presence in selected geographies, broaden our customer base and increase our penetration of distribution channels and vertical markets.

Company History

VeriFone, Inc., our principal operating subsidiary, was incorporated in 1981. Shortly afterward, we introduced the first check verification and credit authorization device ever utilized by merchants in a commercial setting. In 1984, we introduced the first mass market electronic payment system intended to replace manual credit card authorization devices for small merchants. VeriFone, Inc. became a publicly traded company in 1990 and was acquired by Hewlett-Packard Company in 1997. Hewlett-Packard operated VeriFone, Inc. as a division until July 2001, when it sold VeriFone, Inc. to Gores Technology Group, LLC, a privately held acquisition and management firm, in a transaction led by our Chief Executive Officer, Douglas G. Bergeron. In July 2002, Mr. Bergeron and certain investment funds affiliated with GTCR Golder Rauner, L.L.C., or GTCR, a private equity firm, led a recapitalization in which VeriFone Holdings, Inc. was organized as the indirect owner of all the stock of VeriFone, Inc., and the GTCR-affiliated funds became our majority stockholders. VeriFone Holdings, Inc. completed its initial public offering on May 4, 2005. Upon the completion of our initial public offering, the GTCR-affiliated funds ceased to be our majority stockholders, although such funds continue to hold a significant portion of our common stock.

THE OFFERING

Common stock offered by us	2,500,000 shares
Common stock offered by the selling stockholders	8,500,000 shares
Common stock to be outstanding after this offering	67,589,904 shares
Use of proceeds	We will receive estimated net proceeds from our sale of common stock in the offering of approximately $47.8 million at an assumed public offering price of $20.37 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We anticipate that we will use the net proceeds received by us from this offering for general corporate purposes, including potential acquisitions of companies and technologies that complement our business, although we have no such agreements for any such acquisitions at this time. We will not receive any of the proceeds from sales of common stock by the selling stockholders in the offering, including certain members of our management.
Risk factors	Please read "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
New York Stock Exchange trading symbol	"PAY"

The number of shares of common stock to be outstanding after this offering is based on shares outstanding as of August 30, 2005 and excludes:

- 3,552,945 shares subject to outstanding options at a weighted average exercise price of $8.13 per share; and
- 1,209,410 additional shares available for future grants under our existing stock option plans.

Except as otherwise indicated, all information in this prospectus assumes:

- the effect of a three-for-two split of all common stock outstanding on April 30, 2003; and
- that the underwriters do not exercise their over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data should be read together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary consolidated historical financial data set forth below are not necessarily indicative of the results of future operations.

	Predecessor (1)			Successor (2)				
	Years ended October 31,		Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
	2000	2001			2003	2004	2004	2005
	(in thousands, except per share data)							
Consolidated Statement of Operations Data:								
Net revenues	$ 338,541	$ 349,187	$ 184,356	$ 111,237	$ 339,331	$ 390,088	$ 281,469	$ 354,877
Cost of net revenues (3):								
Cost of net revenues excluding amortization of purchased core and developed technology assets	266,723	258,891	125,542	80,479	200,291	231,892	164,887	208,463
Amortization of purchased core and developed technology assets				4,679	14,148	9,745	7,726	5,255
Total cost of net revenues	266,723	258,891	125,542	85,158	214,439	241,637	172,613	213,718
Gross profit	71,818	90,296	58,814	26,079	124,892	148,451	108,856	141,159
Operating expenses (3):								
Research and development	66,480	47,352	20,037	10,322	28,193	33,703	24,255	30,351
Sales and marketing	73,566	57,331	26,848	13,925	40,024	44,002	32,246	38,310
General and administrative	33,074	30,578	26,093	10,342	25,039	25,503	19,026	21,607
Amortization of purchased intangible assets				3,399	10,200	10,200	7,650	3,808
In-process research and development				17,934				
Total operating expenses	173,120	135,261	72,978	55,922	103,456	113,408	83,177	94,076
Operating income (loss)	(101,302)	(44,965)	(14,164)	(29,843)	21,436	35,043	25,679	47,083
Interest expense	(11,064)	(2,630)	(2,407)	(3,794)	(12,456)	(12,597)	(8,523)	(11,758)
Other income (expense), net	(3,118)	7,031	1,694	(4,904)	3,557	(11,869)	(11,815)	(6,313)
Income (loss) before income taxes	(115,484)	(40,564)	(14,877)	(38,541)	12,537	10,577	5,341	29,012
Provision (benefit) for income taxes	9,230	23,196	4,593	(4,509)	12,296	4,971	2,510	7,833
Net income (loss)	(124,714)	(63,760)	(19,470)	(34,032)	241	5,606	2,831	21,179
Accrued dividends and accretion on preferred stock				5,218	6,916	4,959	4,959	
Net income (loss) attributable to common stockholders	$ (124,714)	$ (63,760)	$ (19,470)	$ (39,250)	$ (6,675)	$ 647	$ (2,128)	$ 21,179
Net income (loss) per common share diluted (4)			$ (2.13)	$ (0.81)	$ (0.14)	$ 0.01	$ (0.04)	$ 0.36

As of July 31, 2005

		Actual		As adjusted (5)
		(in thousands)		
Consolidated Balance Sheet Data:				
Cash and cash equivalents	$	20,091	$	67,852
Total assets		247,905		295,666
Long-term debt and capital leases, including current portion		183,324		183,324
Total stockholders' equity (deficit)		(35,779)		11,982

	Predecessor	Successor				
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31, 2003	Years ended October 31, 2004	Nine months ended July 31, 2004	Nine months ended July 31, 2005
	(in thousands)					
Other Data:						
EBITDA, as adjusted (6)	$ (12,174)	$ 2,770	$ 49,854	$ 57,247	$ 41,716	$ 59,970
Net cash provided by (used in) operating activities	(9,233)	8,078	9,772	33,217	21,737	25,634
Capital expenditures (7)		664	4,151	5,273	3,855	3,475

(1) Predecessor company was owned by Hewlett-Packard Company until acquired on July 20, 2001 by an entity affiliated with Gores Technology Group, LLC. Financial information presented reflects adjustment of assets and liabilities to then-fair value at July 20, 2001, which became the basis for amounts included in results of operations from July 20, 2001 until June 30, 2002.

(2) On July 1, 2002, VeriFone was recapitalized whereby certain investment funds affiliated with GTCR became the majority stakeholders while the existing equity investor, an entity affiliated with Gores Technology Group, LLC, retained an ownership interest in the company. Financial information presented reflects adjustment of assets and liabilities to fair value as of July 1, 2002, which became the basis for amounts included in results of operations starting July 1, 2002.

(3) We adopted the fair value recognition and measurement provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, effective May 1, 2005 using the modified-prospective transition method. For periods prior to May 1, 2005 we followed the intrinsic value recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25. For further information see Note 2 to the consolidated financial statements elsewhere in this prospectus. The portion of stock-based compensation allocated to each category of expenses for each period is presented below.

	Predecessor	Successor				
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31, 2003	Years ended October 31, 2004	Nine months ended July 31, 2004	Nine months ended July 31, 2005
	(in thousands)					
Cost of net revenues System Solutions	$	$	$	$	$	$ 73
Research and development						185
Sales and marketing						355
General and administrative		17	81	400	66	302
	$	$ 17	$ 81	$ 400	$ 66	$ 915

(4) Net income (loss) per common share data is not presented for the years ended October 31, 2000 and 2001 because our predecessor did not have a formal capital structure prior to July 20, 2001.

(5) As adjusted to give effect to this offering at an assumed public offering price of $20.37 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

(6) We define earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, as the sum of (1) net income (excluding extraordinary items of gain or loss and any gain or loss from discontinued operations), (2) interest expense, (3) taxes, (4) depreciation, amortization, goodwill impairment and other non-recurring charges, (5) non-cash charges, including non-cash stock-based compensation expense and purchase accounting items and (6) management fees to our principal stockholder. EBITDA, as adjusted, is a primary component of the financial covenants to which we are subject under our credit agreement. If we fail to maintain required levels of EBITDA, as adjusted, we could have a default under our credit agreement, potentially resulting in an acceleration of all of our outstanding indebtedness. In addition, our management uses EBITDA, as adjusted, as a primary measure to review and assess our operating performance and to compare our current results with those for prior periods as well as with the results of other companies in our industry. These competitors may, due to differences in capital structure and investment history, have interest, tax, depreciation, amortization and other non-cash expenses that differ significantly from ours. The term EBITDA, as adjusted, is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and EBITDA, as adjusted, is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating performance you should not consider this data in isolation or as a substitute for our net income calculated in accordance with U.S. GAAP. Our EBITDA, as adjusted, has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for net income or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations are:

- it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

- it does not reflect changes in, or cash requirements for, our working capital needs;

- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

it does not reflect income taxes or the cash requirements for any tax payments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, as adjusted, does not reflect any cash requirements for such replacements;

restructuring and impairment charges, as well as losses from discontinued operations, reflect costs associated with strategic decisions about resource allocations made in prior periods; we may incur similar charges and losses in the future; and

other companies may calculate EBITDA and EBITDA, as adjusted, differently than we do, limiting its usefulness as a comparative measure.

A reconciliation of net income (loss), the most directly comparable U.S. GAAP measure, to EBITDA, as adjusted, for each period indicated is as follows.

	Predecessor	Successor				
			Years ended October 31,		Nine months ended July 31,	
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	2003	2004	2004	2005
	(in thousands)					
U.S. GAAP net income (loss)	$ (19,470)	$ (34,032)	$ 241	$ 5,606	$ 2,831	$ 21,179
Provision (benefit) for income taxes	4,593	(4,509)	12,296	4,971	2,510	7,833
Interest expense	2,407	3,794	12,456	12,597	8,523	11,758
Depreciation and amortization of equipment and improvements		337	1,333	2,451	1,673	2,292
Amortization of capitalized software			108	698	333	780
In-process research and development		17,934				
Amortization of purchased intangible assets		8,078	24,348	19,945	15,376	9,063
Amortization of step-up in inventories on acquisition		10,087				
Amortization of step-up in deferred revenue on acquisition		981	1,561	519	407	495
Stock-based compensation		17	81	400	66	915
Management fees to majority stockholder	2,045	83	250	250	187	125
Gain on sale of assets	(1,749)					
Refund of foreign unclaimed pension benefits			(2,820)			
Loss on debt extinguishment and debt repricing fee (a)				9,810	9,810	5,530
EBITDA, as adjusted	$ (12,174)	$ 2,770	$ 49,854	$ 57,247	$ 41,716	$ 59,970
Supplemental information:						
Foreign currency transaction losses (gains)	(185)	5,198	(1,246)	(252)	873	(523)
Foreign currency contract losses			1,145	2,425	1,142	1,037

(a) For the year ended October 31, 2004 and nine months ended July 31, 2004, consists of a $1.4 million cash payment for early retirement fees and $8.4 million of non-cash write offs of the unamortized amounts of debt issuance costs and debt discount associated with our June 2004 recapitalization; for the nine months ended July 31, 2005, consists of a $2.2 million cash payment for early retirement fees, $2.9 million for non-cash write-offs of the unamortized amounts of debt issuance costs associated with our prepayments on our Senior Secured Credit Facility and $0.5 million debt repricing fee.

(7) Includes purchase of equipment and improvements, software development costs capitalized and purchase of other assets.

RISK FACTORS

The purchase of our common stock involves significant investment risks. You should consider the following risks carefully before making a decision to invest in our common stock. There may also be risks of which we are currently unaware, or that we currently regard as immaterial based on the information available to us that later prove to be material. These risks may adversely affect our business, financial condition, and operating results. As a result, the trading price of our common stock could decline, and you could lose some or all of your investment.

Risks Related to Our Business

We depend upon third parties to manufacture our products and to supply the components necessary to manufacture our products.

We do not manufacture the physical devices that we design which form part of our system solutions; rather, we arrange for a limited number of third parties to manufacture these devices for us. Similarly, components such as application-specific integrated circuits, or ASICs, payment processors, wireless modules, modems and printer mechanisms that are necessary to manufacture and assemble our devices are sourced either directly by us or on our behalf by our contract manufacturers from a variety of component suppliers. We generally do not have long-term agreements with our manufacturers or component suppliers. If our suppliers become unwilling or unable to provide us with adequate supplies of parts or products when we need them, or if they increase their prices, we might not be able to find alternative sources in a timely manner and could be faced with a critical shortage. This could harm our relationships with our customers and cause our revenues to decline. Even if we are able to secure alternative sources in a timely manner, our costs could increase. We expect that in the year ending October 31, 2005, over half of our component spending will be for components we source from a single supplier or a small number of suppliers.

Periodically, constraints in the supply of certain components cause short-term production disruptions or adversely affect our operating results, either because we seek to fill customer orders with less than normal lead times or because of supply/demand imbalances in the component marketplace. In 2004, certain Synchronous Random Access Memory, or SRAM, components were in short supply in the marketplace, and our requirements exceeded the available supply from our vendor. To cover this shortage, we procured these components in the spot market at prices in excess of our historical purchase price, which had a negative impact on our gross profit for the year ended October 31, 2004 which we estimate at approximately $2.0 million.

We depend on a limited number of customers, including distributors and resellers, for sales of a large percentage of our system solutions. If we do not effectively manage our relationships with them, our net revenues and operating results will suffer.

We sell a significant portion of our solutions through third parties such as independent distributors, independent sales organizations, or ISOs, value-added resellers and payment processors. We depend on their active marketing and sales efforts. These third parties also provide after-sales support and related services to end user customers. When we introduce new applications and solutions, they also provide critical support for developing and porting the custom software applications to run on our various electronic payment systems and, internationally, in obtaining requisite certifications in the markets in which they are active. Accordingly, the pace at which we are able to introduce new solutions in markets in which these parties are active depends on the resources they dedicate to these tasks. Moreover, our arrangements with these third parties typically do not prevent them from selling products of other companies, including our competitors, and they may elect to market our competitors' products and services in preference to our system solutions. If one or more of our major resellers terminates or otherwise adversely changes its relationship with us, we may be unsuccessful in replacing it. The loss of one of our major resellers could impair our ability to sell our solutions and result in lower revenues and income. It could also be time consuming and expensive to replicate, either directly or through other resellers, the certifications and the custom applications owned by these third parties.

A significant percentage of our net revenues is attributable to a limited number of customers, including distributors and ISOs. In the nine months ended July 31, 2005, our ten largest customers accounted for approximately 33.0% of our net revenues and sales to First Data Corporation and its affiliates represented 12.3% of our net revenues in that period. Our sales of system solutions to First Data and its affiliates include sales to its TASQ Technology division, which distributes payment devices to ISOs and financial institutions such as Wells Fargo & Company and Chase Merchant Services. If any of our large customers significantly reduces or delays purchases from us or if we are required to sell products to them at reduced prices or on other terms less favorable to us, our revenues and income could be materially adversely affected.

A significant portion of our net revenues is generated outside of the U.S. and we intend to continue to expand our operations internationally. Our results of operations could suffer if we are unable to manage our international expansion and operations effectively.

During the nine months ended July 31, 2005, 42.3% of our net revenues was generated outside of the U.S. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets. Our ability to penetrate some international markets may be limited due to different technical standards, protocols or product requirements. Expansion of our International business will require significant management attention and financial resources. Our International net revenues will depend on our continued success in the following areas:

- securing commercial relationships to help establish our presence in international markets;
- hiring and training personnel capable of marketing, installing and integrating our solutions, supporting customers and managing operations in foreign countries;
- localizing our solutions to target the specific needs and preferences of foreign customers, which may differ from our traditional customer base in the United States;
- building our brand name and awareness of our services among foreign customers; and
- implementing new systems, procedures and controls to monitor our operations in new markets.

In addition, we are subject to risks associated with operating in foreign countries, including:

- multiple, changing and often inconsistent enforcement of laws and regulations;
- satisfying local regulatory or industry imposed security or other certification requirements;
- competition from existing market participants that may have a longer history in and greater familiarity with the foreign markets we enter;
- tariffs and trade barriers;
- laws and business practices that favor local competitors;
- fluctuations in currency exchange rates;

extended payment terms and the ability to collect account receivables;

imposition of limitations on conversion of foreign currencies into U.S. dollars or remittance of dividends and other payments by foreign subsidiaries; and

changes in a specific country's or region's political or economic conditions.

If we fail to address the challenges and risks associated with international expansion, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results.

Our quarterly operating results may fluctuate significantly as a result of factors outside of our control, which could cause the market price of our common stock to decline.

We expect our revenues and operating results to vary from quarter to quarter. As a consequence, our operating results in any single quarter may fall below the expectations of securities analysts and investors, which could cause the price of our common stock to decline. Factors that may affect our operating results include:

- the type, timing and size of orders and shipments;
- demand for and acceptance of our new product offerings;
- delays in the implementation and delivery of our products and services, which may impact the timing of our recognition of revenue;
- variations in product mix and cost during any period;
- development of new relationships and maintenance and enhancement of existing relationships with customers and strategic partners;
- component supplies, manufacturing or distribution difficulties;
- deferral of customer contracts in anticipation of product or service enhancements;
- timing of commencement, implementation or completion of major implementations projects;
- the relative mix of North America and International net revenues;
- fluctuations in currency exchange rates;
- the fixed nature of many of our expenses; and
- industry and economic conditions, including competitive pressures and inventory obsolescence.

In particular, differences in relative growth rates between our businesses in North America and internationally may have a significant effect on our operating results, particularly our reported gross profit percentage, in any individual quarter, with International sales carrying lower margins.

In addition, we have in the past and may continue to experience periodic variations in sales to our key vertical and international markets. These periodic variations occur throughout the year and may lead to fluctuations in our quarterly operating results depending on the impact of any given market during that quarter and could lead to volatility in our stock price.

Our North American and International operations are not equally profitable, which may promote volatility in our earnings and may adversely impact future growth in our earnings.

Our International sales tend to carry lower prices and therefore have lower gross margins than our sales in North America. As a result, if we successfully expand our International sales, any improvement in our results of operations will likely not be as favorable as an expansion of similar magnitude in the U.S. and Canada. In addition, it is impossible to predict for any future period our proportion of revenues that will result from International sales versus sales in North America. Variations in this proportion from period to period may lead to volatility in our results of operations which, in turn, may depress the trading price of our common stock.

Fluctuations in currency exchange rates may adversely affect our results of operations.

A substantial part of our business consists of sales made to customers outside the United States. A portion of the net revenues we receive from such sales is denominated in currencies other than the U.S. dollar. Additionally, portions of our cost of net revenues and our other operating expenses are incurred by our International operations and denominated in local currencies. While fluctuations in the value of these net revenues, costs and expenses as measured in U.S. dollars have not materially affected our results of operations historically, we cannot assure you that adverse currency exchange rate fluctuations will not have a material impact in the future. In addition, our balance sheet reflects non-U.S. dollar denominated assets and liabilities, primarily inter-company balances, which can be adversely affected by fluctuations in currency exchange rates. In certain periods, we have not hedged our exposure to these fluctuations. For example, in the period from July 1, 2002 to October 31, 2002, we recorded net foreign currency transaction losses of $5.2 million primarily due to the exchange rate change of the Brazilian real. More recently, we have entered into foreign currency forward contracts and other arrangements intended to hedge our exposure to adverse fluctuations in exchange rates. Nevertheless, these hedging arrangements may not always be effective, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. Accordingly, if there is an adverse movement in exchange rates, we might suffer significant losses. For instance, in the year ended October 31, 2004, we incurred foreign currency contract losses of $2.2 million net of foreign currency transaction gains primarily as a result of our hedging activities.

Security is vital to our customers and end users and therefore breaches in the security of our solutions could adversely affect our reputation and results of operations.

Protection against fraud is of key importance to the purchasers and end users of our solutions. We incorporate security features, such as encryption software and secure hardware, into our solutions to protect against fraud in electronic payment transactions and to ensure the privacy and integrity of consumer data. Our solutions may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications or the hardware platform. Security vulnerabilities could jeopardize the security of information transmitted or stored using our solutions. In general, liability associated with security breaches of a certified electronic payment system belongs to the institution that acquires the financial transaction. However, if the security of our solutions is compromised, our reputation and marketplace acceptance of our solutions will be adversely affected, which would cause our business to suffer, and we may become subject to damage claims. We have not experienced any material security breaches affecting our business.

Our solutions may have defects that could result in sales delays, delays in our collection of receivables and claims against us.

We offer complex solutions that are susceptible to undetected hardware and software errors or failures. Solutions may experience failures when first introduced, as new versions are released or at any time during their lifecycle. Any product recall as a result of errors or failures could result in the loss of or delay in market acceptance of our solutions and adversely affect our business and reputation. Any significant returns or warranty claims could result in significant additional costs to us and could adversely affect our results of operations. Our customers may also run third-party software applications on our electronic payment systems. Errors in third-party applications could adversely affect the performance of our solutions.

The existence of defects and delays in correcting them could result in negative consequences, including the following: harm to our brand; delays in shipping solutions; loss of market acceptance for our solutions; additional warranty expenses; diversion of resources from product development; and loss of credibility with distributors and customers. Correcting defects can be time consuming and in some circumstances extremely difficult. Software errors may take several months to correct, and hardware defects may take even longer to correct. As an example, beginning in 2001 we experienced a problem in which the ink cartridge in a product sold to a particular customer leaked ink and had to be replaced with a different cartridge. By the time we reached a settlement agreement to resolve this issue with that customer in the three months ended January 31, 2005, we had incurred aggregate costs and reserves of approximately $10.2 million in respect of cartridge replacement, extended warranty costs and customer rebates.

We may accumulate excess or obsolete inventory that could result in unanticipated price reductions and write-downs and adversely affect our financial condition.

In formulating our solutions, we have focused our efforts on providing to our customers solutions with higher levels of functionality, which requires us to develop and incorporate cutting edge and evolving technologies. This approach tends to increase the risk of obsolescence for products and components we hold in inventory and may compound the difficulties posed by other factors that affect our inventory levels, including the following:

- the need to maintain significant inventory of components that are in limited supply;
- buying components in bulk for the best pricing;
- responding to the unpredictable demand for products;
- cancellation of customer orders; and
- responding to customer requests for quick delivery schedules.

As a result of these factors, we regularly run the risk of maintaining excess inventory levels. This risk may be enhanced to the extent we increase inventory levels in response to expected customer requirements. The accumulation of excess or obsolete inventory may result in price reductions and inventory write-downs, which could adversely affect our business and financial condition. For example, in late 2002 we developed our first wireless product line but the market for wireless products developed more slowly than we anticipated. By the time this market developed to a point at which we could sell our built up inventory, we needed to upgrade some of the wireless technology in their products, at a cost of $1.4 million. We also incurred an increased obsolescence cost of $0.5 million in respect of some accessories. In addition, we have incurred an obsolescence cost of $4.3 million in the nine months ended July 31, 2005, primarily as a result of the shift to the new Vx Solutions, our latest generation of system solutions, employing a 32-bit ARM9 System-on-Chip running our Verix operating system which provides a consistent user interface and secure multi-application platform across several payment systems.

Our proprietary technology is difficult to protect and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.

We may not be able to protect our proprietary technology, which could enable competitors to develop services that compete with our own. We rely on copyright, trademark and trade secret laws, as well as confidentiality, licensing and other contractual arrangements to establish and protect the proprietary aspects of our solutions. We do not own any patents that protect important aspects of our current solutions. The laws of some countries in which we sell our solutions and services may not protect software and intellectual property rights to the same extent as the laws in the United States. If we are unable to prevent misappropriation of our technology, competitors may be able to use and adapt our technology. Our failure to protect our technology could diminish our competitive advantage and cause us to lose customers to competitors.

Our business may suffer if we are sued for infringing the intellectual property rights of third parties, or if we are unable to obtain rights to third party intellectual property on which we depend.

Third parties have in the past asserted and may in the future assert claims that we are infringing their proprietary rights. Such infringement claims may cause us to incur significant costs in defending those claims. We may be required to discontinue using and selling any infringing technology and services, to expend resources to develop non-infringing technology or to purchase licenses or pay royalties for other technology. Similarly, we depend on our ability to license intellectual property from third parties. These or other third parties may become unwilling to license to us on acceptable terms intellectual property that is necessary to our business. In either case, we may be unable to acquire licenses for other technology on reasonable commercial terms or at all. As a result, we may find that we are unable to continue to offer the solutions and services upon which our business depends.

We have received, and have currently pending, third-party claims and may receive additional notices of such claims of infringement in the future. To date, such activities have not had a material adverse effect on our business and we have either prevailed in all litigation, obtained a license on commercially acceptable terms or otherwise been able to modify any affected products or technology. However, there can be no assurance that we will continue to prevail in any such actions or that any license required under any such patent or other intellectual property would be made available on commercially acceptable terms, if at all. See "Business Legal Proceedings."

We depend on a limited number of key members of senior management who would be difficult to replace. If we lose the services of these individuals or are unable to attract new talent, our business will be adversely affected.

We depend upon the ability and experience of a number of our key members of senior management who have substantial experience with our operations, the rapidly changing electronic payment transaction industry and the selected markets in which we offer our solutions. The loss of the services of one or a combination of our senior executives or key managers could have a material adverse effect on our results of operations. Our success also depends on our ability to continue to attract, manage and retain other qualified middle management and technical and clerical personnel as we grow. We may not be able to continue to attract or retain such personnel in the future.

We intend to make acquisitions and strategic investments, which will involve numerous risks. We may not be able to address these risks without substantial expense, delay or other operational or financial problems.

Although we have a limited history of making acquisitions or strategic investments, a part of our strategy will be to acquire or make investments in related businesses, technologies or products in the future. Acquisitions or investments involve various risks, such as:

- the difficulty of integrating the technologies, operations and personnel of the acquired business, technology or product;
- the potential disruption of our ongoing business, including the diversion of management attention;
- the possible inability to obtain the desired financial and strategic benefits from the acquisition or investment;
- loss of customers;
- assumption of unanticipated liabilities;
- the loss of key employees of an acquired business; and
- the possibility of our entering markets in which we have limited prior experience.

Future acquisitions and investments could also result in substantial cash expenditures, potentially dilutive issuance of our equity securities, our incurring of additional debt and contingent liabilities, and amortization expenses related to other intangible assets that could adversely affect our business, operating results and financial condition. We depend on the retention and performance of existing management and employees of acquired businesses for the day-to-day management and future operating results of these businesses.

Shipments of electronic payment systems may be delayed by factors outside of our control, which can harm our reputation and our relationships with our customers.

The shipment of payment systems requires us or our manufacturers, distributors or other agents to obtain customs or other government certifications and approvals, and, on occasion, to submit to physical inspection of our systems in transit. Failure to satisfy these requirements, and the very process of trying to satisfy them, can lead to lengthy delays in the delivery of our solutions to our direct or indirect customers. Delays and unreliable delivery by us may harm our reputation in the industry and our relationships with our customers.

Force majeure events, such as terrorist attacks, other acts of violence or war, political instability and health epidemics may adversely affect us.

Terrorist attacks, war, and international political instability, along with health epidemics may disrupt our ability to generate revenues. Such events may negatively affect our ability to maintain sales revenue and to develop new business relationships. Because a substantial and growing part of our revenues is derived from sales and services to customers outside of the United States and we have our electronic payment systems manufactured outside the U.S., terrorist attacks, war and international political instability anywhere may decrease international demand for our products and inhibit customer development opportunities abroad, disrupt our supply chain and impair our ability to deliver our electronic payment systems, which could materially adversely affect our net revenues or results of operations. Any of these events may also disrupt global financial markets and precipitate a decline in the price of our common stock.

Risks Related to Our Industry

Our markets are highly competitive and subject to price erosion.

The markets for our system solutions and services are highly competitive, and we have been subject to price pressures. Competition from manufacturers, distributors or providers of products similar to or competitive with our system solutions or services could result in price reductions, reduced margins and a loss of market share or could render our solutions obsolete.

We expect to continue to experience significant and increasing levels of competition in the future. We compete with suppliers of cash registers that provide built in electronic payment capabilities and producers of software that facilitates electronic payment over the internet, as well as other manufacturers or distributors of electronic payment systems. We must also compete with smaller companies that have been able to develop strong local or regional customer bases. In certain foreign countries, some competitors are more established, benefit from greater name recognition and have greater resources within those countries than we do.

If we do not continually enhance our existing solutions and develop and market new solutions and enhancements, our net revenues and income will be adversely affected.

The market for electronic payment systems is characterized by:

- rapid technological change;
- frequent product introductions and enhancements;
- evolving industry and government performance and security standards; and
- changes in customer and end-user requirements.

Because of these factors, we must continually enhance our existing solutions and develop and market new solutions.

We cannot be sure that we will successfully complete the development and introduction of new solutions or enhancements or that our new solutions will be accepted in the marketplace. We may also fail to develop and deploy new solutions and enhancements on a timely basis. In either case, we may lose market share to our competitors, and our net revenues and income could suffer.

We must adhere to industry and government regulations and standards and therefore sales will suffer if we cannot comply with them.

Our system solutions must meet industry standards imposed by EMVCo, Visa, MasterCard and other credit card associations and standard setting organizations. New standards are continually being adopted or proposed as a result of worldwide anti-fraud initiatives, the increasing need for system compatibility and technology developments such as wireless and wireline IP communication. Our solutions also must comply with government regulations, including those imposed by telecommunications authorities and independent standards groups worldwide regarding emissions, radiation and connections with telecommunications and radio networks. We cannot be sure that we will be able to design our solutions to comply with future standards or regulations on a timely basis, if at all. Compliance with these standards could increase the cost of developing or producing our solutions. If we are unable to comply with new industry standards, or we cannot obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance increases the cost of our solutions, our results of operations may be adversely affected.

Risks Related to Our Capital Structure

Our secured credit facility contains restrictive and financial covenants and, if we are unable to comply with these covenants, we will be in default. A default could result in the acceleration of our outstanding indebtedness, which would have an adverse effect on our business and stock price.

In June 2004, our principal operating subsidiary, VeriFone, Inc., and another subsidiary entered into a secured credit facility under which, as of July 31, 2005, VeriFone, Inc. had outstanding indebtedness, excluding capital leases, of approximately $183.0 million.

Our secured credit facility contains customary covenants that require our subsidiaries to maintain certain specified financial ratios and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations, or undertake various other corporate activities. Our business is conducted through subsidiaries of VeriFone Holdings, Inc., the issuer of the common stock to be sold in this offering. Therefore, as a practical matter, these covenants restrict our ability to engage in or benefit from such activities. In addition, we have, in order to secure repayment of our secured credit facility, pledged substantially all of our assets and properties. This pledge may reduce our operating flexibility because it restricts our ability to dispose of these assets or engage in other transactions that may be beneficial to us.

If we are unable to comply with any of these covenants, we will be in default, which could result in the acceleration of our outstanding indebtedness. If acceleration occurred, we would not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance our debt. Even if new financing is made available to us, it may not be available on acceptable terms.

We have negative stockholders' equity, which could limit our ability to obtain additional financing.

As of July 31, 2005, we had negative stockholders' equity of $35.8 million, due in part to a $97.4 million dividend paid on June 30, 2004, partially offset by capital received in our initial public offering which we completed on May 4, 2005. This may make lenders and other potential investors less likely to provide us with additional debt or equity financing. If we require additional financing, there is no guarantee that we can obtain it on acceptable terms, or at all. If we are unable to obtain additional, needed financing, our financial condition and results of operations may be adversely affected.

If we are unable to improve and maintain the quality of our internal controls, any weaknesses could materially and adversely affect our ability to provide timely and accurate information about us, which could harm our reputation and share price.

On several occasions since our separation from Hewlett-Packard, our independent registered public accounting firm has identified deficiencies in our internal controls which rose to the level of "reportable conditions," which means that these were matters that in our auditors' judgment could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of our management in our financial statements. We have worked diligently to correct these deficiencies. We are not aware of, nor did our independent registered public accounting firm inform us of, any matters involving internal controls that we consider to be reportable conditions relating to the year ended October 31, 2004 or the nine months ended July 31, 2005. Nevertheless, we cannot be certain that the measures we have taken will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could adversely affect the trading price of our common stock.

GTCR has significant control over our operations, which will limit your ability to influence corporate activities and may adversely affect the market price of our common stock.

Upon completion of the offering, GTCR will own or control shares representing, in the aggregate, an approximately 39.0% voting interest in us, or 37.4% if the underwriters exercise their over-allotment option in full, and will have three of the seven members on our board of directors. Accordingly, GTCR may exercise significant control over our operations and business strategy. In addition, GTCR will have substantial influence over the outcome of votes on all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions.

GTCR may also exercise control, with respect to mergers or other business combinations that involve a change in control of us, under a stockholders agreement among us, GTCR and certain other stockholders. Subject to specified conditions, that agreement requires the stockholders who are parties to it to consent to a sale of VeriFone Holdings, Inc. to a non-affiliate of GTCR if the sale is approved by the holders of a majority of the shares subject to the agreement. This provision is described in more detail under the caption "Certain Relationships and Related Party Transactions Agreements Related to Our 2000 Acquisition Stockholders Agreement" elsewhere in this prospectus. So long as the shares subject to the stockholders agreement represent a majority of the voting power of our capital stock, this right gives GTCR the practical ability to sell us in its sole discretion, because GTCR currently controls a majority of the shares subject to the stockholders agreement, and will continue to do so upon completion of this offering. Following the completion of the offering, a majority of the voting power of our capital stock will remain subject to the stockholders agreement.

GTCR's ownership or control may have the effect of delaying or preventing a change in control of us or discouraging others from making tender offers for our shares, which could prevent stockholders from receiving a premium for their shares. These actions may be taken even if other stockholders oppose them.

Our Chief Executive Officer owns a significant stake in us and may be difficult to remove.

Our Chief Executive Officer, Douglas Bergeron, upon completion of this offering, will beneficially own shares representing, in the aggregate, approximately a 7.6% voting interest in us, or 7.1% if the underwriters exercise their over-allotment option in full. Moreover, Mr. Bergeron and several senior managers have a long professional history together at SunGard Data Systems Inc. Mr. Bergeron's significant ownership stake in us and his history with other senior management may also make it difficult for the board of directors to remove Mr. Bergeron or other members of senior management.

Conflicts of interest may arise because some of our directors are principals of our principal stockholder.

Three principals of GTCR serve on our board of directors, which currently has seven members. GTCR and its affiliates may invest in entities that directly or indirectly compete with us or companies in which they currently invest may begin competing with us. As a result of these relationships, when conflicts between the interests of GTCR and the interests of our other stockholders arise, these directors may not be disinterested. Although our directors and officers have a duty of loyalty to us, under Delaware law and our amended and restated certificate of incorporation that was adopted in connection with the closing of our initial public offering on May 4, 2005, transactions that we enter into in which a director or officer that is a representative of GTCR has a conflict of interest are generally permissible so long as (1) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our board of directors and a majority of our disinterested directors approves the transaction, (2) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our stockholders and a majority of our disinterested stockholders approves the transaction, or (3) the transaction is otherwise fair to us. GTCR's representatives will not be required to offer to us any transaction opportunity of which they become aware and could take any such opportunity for themselves or offer it to other companies in which they have an investment, unless such opportunity is expressly offered to them solely in their capacity as a director of us.

We have incurred and will continue to incur increased costs as a public company.

We completed our initial public offering on May 4, 2005. As a public company, we are required to comply with various accounting and legal requirements as well as undertake additional corporate and administrative tasks as a result of which we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the New York Stock Exchange, have required changes in corporate governance practices of public companies. These new rules and regulations have increased our legal and financial compliance costs and have made some activities more time consuming and costly. For example, as a result of being a public company, we have created additional board committees and have adopted or will be required to adopt policies regarding internal control over financial reporting and disclosure controls and procedures. In addition, we have incurred and will continue to incur additional costs associated with our public company reporting requirements.

Future sales of our common stock, or the perception in the public markets that these sales may occur, could depress our stock price.

Sales of substantial amounts of our common stock, or the possibility of such sales, may adversely affect the market price of our common stock. These sales may also make it more difficult for us to raise capital through the issuance of equity securities at a time and at a price we deem appropriate.

As of August 30, 2005, after giving effect to this offering, there were 67,589,904 shares of our common stock outstanding. Of these shares, 28,710,000 shares of common stock, including 11,000,000 shares of common stock sold in the offering, will be freely transferable without restriction or further registration under the Securities Act of 1933 immediately following this offering. An additional 4,625 shares will be freely tradeable beginning on October 27, 2005, following the termination of the lock-up agreement entered into by the holders of those shares with the underwriters of our initial public offering. The remaining 38,875,279 shares of common stock available for future sale will be "restricted securities" within the meaning of Rule 144 under the Securities Act and will be eligible for resale subject to the volume, manner of sale, holding period and other limitations of Rule 144, after the expiration of any applicable lock-up arrangements. In addition to outstanding shares eligible for sale, additional shares of our common stock will be issuable under currently outstanding stock options. We have granted GTCR and other stockholders the right to require us to register shares of our common stock. These stockholders will be permitted to register shares that represent a majority of our common stock pursuant to the rights that we have granted to them. Accordingly, the sale of shares subject to registration rights may have a negative impact on the market price for our common stock. Shares held by certain of our stockholders, representing an aggregate of 38,533,684 shares of our common stock, are subject to lock-up agreements and may not be sold to the public during the 90-day period following the date of this prospectus without the prior written consent of J.P. Morgan Securities Inc. and Lehman Brothers Inc. See "Underwriting."

We expect that certain of our officers may enter into Rule 10b5-1 trading plans with respect to their anticipated sales of our common stock shortly after the completion of this offering. Sales under these plans may not begin prior to the expiration of the lock-up restrictions described in the previous paragraph, unless earlier consented to by J.P. Morgan Securities Inc. and Lehman Brothers Inc.

Some provisions of our certificate of incorporation and bylaws may delay or prevent transactions that many stockholders may favor.

Some provisions of our amended and restated certificate of incorporation and amended and restated bylaws that became effective upon the completion of our initial public offering on May 4, 2005, may have the effect of delaying, discouraging, or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These provisions include:

- authorization of the issuance of "blank check" preferred stock without the need for action by stockholders;
- the removal of directors or amendment of our organizational documents only by the affirmative vote of the holders of two-thirds of the shares of our capital stock entitled to vote;
- provision that any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of the directors then in office;
- inability of stockholders to call special meetings of stockholders; and
- advance notice requirements for board nominations and proposing matters to be acted on by stockholders at stockholder meetings.

See "Description of Our Capital Stock Anti-Takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws" for a discussion of these provisions.

Our common stock has only been publicly traded since April 29, 2005 and we expect that the price of our common stock will fluctuate substantially.

There has only been a public market for our common stock since April 29, 2005. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- changes in financial estimates by us or by any securities analysts who might cover our stock, or our failure to meet the estimates made by securities analysts;
- changes in the market valuations of other companies operating in our industry;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;

additions or departures of key personnel; and

sales of our common stock, including sales of our common stock by our directors and officers or by GTCR or our other principal stockholders.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or comparable terminology.

Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements.

These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under "Risk Factors" and elsewhere in this prospectus. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results or to changes in expectations.

DIVIDEND POLICY

Other than a special dividend to our common stockholders of approximately $97.4 million paid in June 2004 and $17.1 million in respect of accrued dividends paid to the holders of our Class A redeemable convertible preferred stock as part of the redemption of all our outstanding Class A redeemable convertible preferred stock, we have not declared or paid cash dividends on our capital stock in our most recent two full fiscal years. We do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain any future earnings to finance our operations and growth. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent on earnings, financial condition, operating results, capital requirements, any contractual restrictions and other factors that our board of directors deems relevant. In addition, our secured credit facility contains limitations on the ability of our principal operating subsidiary, VeriFone, Inc., to declare and pay cash dividends. Because we conduct our business through our subsidiaries, as a practical matter these restrictions similarly limit our ability to pay dividends on our common stock.

USE OF PROCEEDS

Our net proceeds from the sale of 2,500,000 shares of common stock in this offering are estimated to be approximately $47.8 million, based on an assumed public offering price of $20.37 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the proceeds from shares of common stock sold by our selling stockholders, including certain members of our management.

We expect to use the net proceeds to be received by us in this offering for general corporate purposes, including potential acquisitions of companies and technologies that complement our business, although we have no such agreements for any such acquisitions at this time.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and capitalization as of July 31, 2005:

- on an actual basis; and
- on an as adjusted basis, reflecting the sale of 2,500,000 shares of common stock by us in this offering at an assumed public offering price of $20.37 per share, after deducting the underwriting discounts and commissions, and estimated offering expenses payable by us.

You should read this table in conjunction with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our financial statements and related notes.

	As of July 31, 2005	
	Actual	As adjusted
	(in thousands, except per share data)	
Cash and cash equivalents	$ 20,091	$ 67,852
Short-term debt, excluding capital leases:		
Current portion of Term B loan	$ 1,849	$ 1,849
Long-term debt, excluding capital leases:		
Revolver		
Term B loan	181,169	181,169
Total long-term debt, excluding capital leases	181,169	181,169
Stockholders' equity (deficit):		
Common stock, par value $0.01 per share; 100,000 shares authorized and 65,089 shares issued and outstanding actual; 67,589 shares issued and outstanding as adjusted	651	676
Additional paid-in capital	78,090	125,826
Accumulated deficit	(115,039)	(115,039)
Other comprehensive income	519	519
Total stockholders' equity (deficit)	(35,779)	11,982
Total capitalization	$ 145,390	$ 193,151

The number of shares of common stock shown as issued and outstanding in the table above excludes:

- 3,434,245 shares subject to outstanding options at a weighted average exercise price of $7.65 per share; and
- 1,328,770 additional shares available for future grants under our existing stock option plans.

MARKET PRICE OF COMMON STOCK

Our common stock has been traded on the New York Stock Exchange under the symbol "PAY" since April 29, 2005. The following table sets forth for the periods indicated the high and low sale prices per share of our common stock as reported by the New York Stock Exchange:

Fiscal Year 2005	High	Low
Second Quarter (commencing April 29, 2005)	$ 11.30	$ 10.50
Third Quarter	$ 22.33	$ 10.80
Fourth Quarter (through September 16, 2005)	$ 22.15	$ 17.99

On September 16, 2005, the closing price of our common stock, as reported on the New York Stock Exchange, was $20.37 per share. As of August 30, 2005, we had approximately 75 stockholders of record.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth certain of our historical financial data. We have derived the selected historical financial data as of July 31, 2005 and for the nine months ended July 31, 2004 and 2005 from our unaudited consolidated financial statements and the related notes included elsewhere in this prospectus. We have derived the selected historical consolidated financial data as of October 31, 2004 and 2003 and for the years ended October 31, 2004 and 2003 and the period from July 1, 2002 to October 31, 2002 from our audited consolidated financial statements and the related notes included elsewhere in this prospectus. We have derived the selected historical consolidated financial data for the period from November 1, 2001 to June 30, 2002 from the audited consolidated financial statements and related notes of our predecessor, which are included elsewhere in this prospectus. We have derived the selected historical consolidated financial data as of October 31, 2002 from our audited consolidated financial statements which are not included in this prospectus. We have derived the selected historical consolidated financial data as of October 31, 2001 and 2000 and for the years ended October 31, 2001 and 2000 from the unaudited consolidated financial statements of our predecessor which are not included in this prospectus. The selected consolidated historical financial data set forth below are not necessarily indicative of the results of future operations and should be read in conjunction with the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the historical consolidated financial statements and accompanying notes included elsewhere in this prospectus.

	Predecessor (1)			Successor (2)				
	Years ended October 31,		Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
	2000	2001			2003	2004	2004	2005
	(in thousands, except per share data)							
Consolidated Statement of Operations Data:								
Net revenues	$ 338,541	$ 349,187	$ 184,356	$ 111,237	$ 339,331	$ 390,088	$ 281,469	$ 354,877
Cost of net revenues (3):								
Cost of net revenues excluding amortization of purchased core and developed technology assets	266,723	258,891	125,542	80,479	200,291	231,892	164,887	208,463
Amortization of purchased core and developed technology assets				4,679	14,148	9,745	7,726	5,255
Total cost of net revenues	266,723	258,891	125,542	85,158	214,439	241,637	172,613	213,718
Gross profit	71,818	90,296	58,814	26,079	124,892	148,451	108,856	141,159
Operating expenses (3):								
Research and development	66,480	47,352	20,037	10,322	28,193	33,703	24,255	30,351
Sales and marketing	73,566	57,331	26,848	13,925	40,024	44,002	32,246	38,310
General and administrative	33,074	30,578	26,093	10,342	25,039	25,503	19,026	21,607
Amortization of purchased intangible assets				3,399	10,200	10,200	7,650	3,808
In-process research and development				17,934				
Total operating expenses	173,120	135,261	72,978	55,922	103,456	113,408	83,177	94,076
Operating income (loss)	(101,302)	(44,965)	(14,164)	(29,843)	21,436	35,043	25,679	47,083
Interest expense	(11,064)	(2,630)	(2,407)	(3,794)	(12,456)	(12,597)	(8,523)	(11,758)
Other income (expense), net	(3,118)	7,031	1,694	(4,904)	3,557	(11,869)	(11,815)	(6,313)
Income (loss) before income taxes	(115,484)	(40,564)	(14,877)	(38,541)	12,537	10,577	5,341	29,012
Provision (benefit) for income taxes	9,230	23,196	4,593	(4,509)	12,296	4,971	2,510	7,833
Net income (loss)	(124,714)	(63,760)	(19,470)	(34,032)	241	5,606	2,831	21,179
Accrued dividends and accretion on preferred stock				5,218	6,916	4,959	4,959	

	Predecessor (1)			Successor (2)				
Net income (loss) attributable to common stockholders	$ (124,714)	$ (63,760)	$ (19,470)	$ (39,250)	$ (6,675)	$ 647	$ (2,128)	$ 21,179
Net income (loss) per common share (4):								
Basic			$ (2.13)	$ (0.81)	$ (0.14)	$ 0.01	$ (0.04)	$ 0.38
Diluted			$ (2.13)	$ (0.81)	$ (0.14)	$ 0.01	$ (0.04)	$ 0.36
Weighted-average shares used in computing net income (loss) per common share (4):								
Basic			9,121	48,459	48,869	50,725	50,101	56,285
Diluted			9,121	48,459	48,869	56,588	50,101	59,630
Cash dividends per common share (4)			$	$	$	$ 1.72	$ 1.72	$

	Predecessor (1)		Successor (2)			
	As of October 31,		As of October 31,			
	2000	2001	2002	2003	2004	July 31, 2005
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 40,015	$ 20,881	$ 3,040	$ 5,877	$ 12,705	$ 20,091
Total assets	202,932	127,577	248,852	236,967	245,619	247,905
Long-term debt and capital leases, including current portion		33,934	66,565	62,634	262,187	183,324
Class A redeemable convertible preferred stock			74,294	81,210		
Total stockholders' deficit	(122,285)	(15,921)	(32,659)	(39,141)	(135,387)	(35,779)

	Predecessor (1)	Successor (2)				
			Years ended October 31,		Nine months ended July 31,	
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	2003	2004	2004	2005
	(in thousands)					
Other Data:						
EBITDA, as adjusted (5)	$ (12,174)	$ 2,770	$ 49,854	$ 57,247	$ 41,716	$ 59,970
Net cash provided by (used in) operating activities	$ (9,233)	$ 8,078	$ 9,772	$ 33,217	$ 21,737	$ 25,634
Capital expenditures:						
Purchase of equipment and improvements	$	$ 542	$ 2,196	$ 2,430	$ 1,507	$ 2,166
Software development costs capitalized		122	1,955	2,555	2,348	691
Purchase of other assets				288		618
Total capital expenditures	$	$ 664	$ 4,151	$ 5,273	$ 3,855	$ 3,475
Other income (expense), net:						
Loss on debt extinguishment and debt repricing fee	$	$	$	$ (9,810)	$ (9,810)	$ (5,530)
Refund of foreign unclaimed pension benefits			2,820			
Gain on sale of assets	1,749					
Foreign exchange transaction gains (losses)	185	(5,198)	1,246	252	(873)	523
Foreign currency contract losses			(1,145)	(2,425)	(1,142)	(1,037)
Other	(240)	294	636	114	10	(269)
Total other income (expense)	$ 1,694	$ (4,904)	$ 3,557	$ (11,869)	$ (11,815)	$ (6,313)

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(1) Predecessor company was owned by Hewlett-Packard Company until acquired on July 20, 2001 by an entity affiliated with Gores. Financial information presented reflects adjustment of assets and liabilities to then-fair value at July 20, 2001, which became the basis for amounts included in results of operations from July 20, 2001 until June 30, 2002.

(2) On July 1, 2002, VeriFone was recapitalized whereby certain investment funds affiliated with GTCR became the majority stakeholders while the existing equity investor, an entity affiliated with Gores retained an ownership interest in the Company. Financial information presented reflects adjustment of assets and liabilities to fair value as of July 1, 2002, which became the basis for amounts included in results of operations starting July 1, 2002.

(3) We adopted the fair value recognition and measurement provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, effective May 1, 2005 using the modified-prospective transition method. For periods prior to May 1, 2005 we followed the intrinsic value recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25. For further information see Note 2 to the financial statements

elsewhere in this prospectus. The portion of stock-based compensation allocated to each category of expenses for each period is presented below.

	Predecessor	Successor				
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
			2003	2004	2004	2005
	(in thousands)					
Cost of net revenues System Solutions	$	$	$	$	$	$ 73
Research and development						185
Sales and marketing						355
General and administrative		17	81	400	66	302
	$	$ 17	$ 81	$ 400	$ 66	$ 915

(4)

Net income (loss) per common share and cash dividends per common share data is not presented for the years ended October 31, 2000 and 2001 because our predecessor did not have a formal capital structure prior to July 20, 2001.

(5)

We define earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, as the sum of (1) net income (excluding extraordinary items of gain or loss and any gain or loss from discontinued operations), (2) interest expense, (3) taxes, (4) depreciation, amortization, goodwill impairment and other non-recurring charges, (5) non-cash charges, including non-cash stock-based compensation expense and purchase accounting items and (6) management fees to our principal stockholder. EBITDA, as adjusted, is a primary component of the financial covenants to which we are subject under our credit agreement. If we fail to maintain required levels of EBITDA, as adjusted, we could have a default under our credit agreement, potentially resulting in an acceleration of all of our outstanding indebtedness. In addition, our management uses EBITDA, as adjusted, as a primary measure to review and assess our operating performance and to compare our current results with those for prior periods as well as with the results of other companies in our industry. These competitors may, due to differences in capital structure and investment history, have interest, tax, depreciation, amortization and other non-cash expenses that differ significantly from ours. The term EBITDA, as adjusted, is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and EBITDA, as adjusted, is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income calculated in accordance with U.S. GAAP. Our EBITDA, as adjusted, has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for net income or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations are:

it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

it does not reflect changes in, or cash requirements for, our working capital needs;

it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

it does not reflect income taxes or the cash requirements for any tax payments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, as adjusted, does not reflect any cash requirements for such replacements;

restructuring and impairment charges, as well as losses from discontinued operations, reflect costs associated with strategic decisions about resource allocations made in prior periods; we may incur similar charges and losses in the future; and

other companies may calculate EBITDA and EBITDA, as adjusted, differently than we do, limiting its usefulness as a comparative measure.

A reconciliation of net income (loss), the most directly comparable U.S. GAAP measure, to EBITDA, as adjusted, for each period indicated is as follows.

	Predecessor	Successor					
			Years ended October 31,		Nine months ended July 31,		
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	2003	2004	2004	2005
	(in thousands)					
U.S. GAAP net income (loss)	$ (19,470)	$ (34,032)	$ 241	$ 5,606	$ 2,831	$ 21,179
Provision (benefit) for income taxes	4,593	(4,509)	12,296	4,971	2,510	7,833
Interest expense	2,407	3,794	12,456	12,597	8,523	11,758
Depreciation and amortization of equipment and improvements		337	1,333	2,451	1,673	2,292
Amortization of capitalized software			108	698	333	780
In-process research and development		17,934				
Amortization of purchased intangible assets		8,078	24,348	19,945	15,376	9,063
Amortization of step-up in inventories on acquisition		10,087				
Amortization of step-up in deferred revenue on acquisition		981	1,561	519	407	495
Stock-based compensation		17	81	400	66	915
Management fees to majority stockholder	2,045	83	250	250	187	125
Gain on sale of assets	(1,749)					
Refund of foreign unclaimed pension benefits			(2,820)			
Loss on debt extinguishment and debt repricing fee(a)				9,810	9,810	5,530
EBITDA, as adjusted	$ (12,174)	$ 2,770	$ 49,854	$ 57,247	$ 41,716	$ 59,970
Supplemental information:						
Foreign currency transaction losses (gains)	(185)	5,198	(1,246)	(252)	873	(523)
Foreign currency contract losses			1,145	2,425	1,142	1,037

(a) For the year ended October 31, 2004 and nine months ended July 31, 2004, consists of a $1.4 million cash payment for early retirement fees and $8.4 million of non-cash write offs of the unamortized amounts of debt issuance costs and debt discount associated with our June 2004 recapitalization; for the nine months ended July 31, 2005, consists of a $2.2 million cash payment for early retirement fees and $2.9 million of non-cash write-off of the unamortized amounts of debt issuance costs associated with prepayments on our Senior Secured Credit Facility and $0.5 million debt repricing fee.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following commentary in conjunction with our consolidated financial statements and related notes, "Selected Consolidated Financial Data" and "Risk Factors" included elsewhere in this prospectus. In this discussion and analysis, "North America" refers to the United States and Canada, and "International" refers to all jurisdictions outside the United States and Canada. This discussion and analysis contains forward-looking statements, which involve risks and uncertainties, including those described under the caption "Risk Factors" and elsewhere in this prospectus. Our actual results may differ materially from those anticipated in these forward-looking statements. We discuss our results for the year ended October 31, 2002 by combining the eight months prior to the acquisition of our predecessor on June 30, 2002 with the four months of post acquisition operations. We believe that presenting these results on a combined basis is the most meaningful way in which we can analyze our results of operations. These combined amounts are for informational purposes only and do not purport to represent what our financial results would have been in the combined period if our 2002 acquisition had occurred at the beginning of the combined period.

Overview

We are a leading global provider of technology that enables electronic payment transactions and value-added services at the point of sale. We have one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment systems worldwide. We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. These advantages include our globally trusted brand name, large installed base, history of significant involvement in the development of industry standards, global operating scale, customizable platform and investment in research and development. We believe that these advantages position us well to capitalize on the continuing global shift toward electronic payment transactions as well as other long-term industry trends.

History

VeriFone, Inc., our principal operating subsidiary, was incorporated in 1981. Shortly afterward, we introduced the first check verification and credit authorization device ever utilized by merchants in a commercial setting. In 1984, we introduced the first mass-market electronic payment system intended to replace manual credit card authorization devices for small merchants. VeriFone, Inc. became a publicly traded company in 1990 and was acquired by Hewlett-Packard Company in 1997. Hewlett-Packard operated VeriFone, Inc. as a division until July 2001, when it sold VeriFone, Inc. to Gores Technology Group in a transaction led by our CEO, Douglas G. Bergeron. In July 2002, Mr. Bergeron and certain investment funds affiliated with GTCR led a recapitalization in which VeriFone Holdings, Inc. was organized as the indirect owner of all the stock of VeriFone, Inc., and the GTCR-affiliated funds became our majority stockholders. We refer to this transaction as our 2002 acquisition.

In our 2002 acquisition, we indirectly acquired all of the outstanding common stock of our predecessor, VeriFone, Inc., from VeriFone Holding Corp., a wholly owned subsidiary of Gores Technology Group. The consideration we paid to acquire our predecessor was cash and 6,882,354 shares of our common stock. As a result, we effectively acquired 88% of the common stock of our predecessor and an affiliate of Gores Technology Group effectively retained a 12% ownership interest. This acquisition was valued at $164.6 million including transaction costs of $5.6 million. We accounted for this acquisition under the purchase method, with the total consideration allocated to the fair value of assets acquired and liabilities assumed, including identified purchased intangibles of $74.6 million. We entered into long-term debt arrangements and issued equity to finance the acquisition. Notes 3, 5 and 7 to our consolidated financial statements provide more information.

The financial statements subsequent to July 1, 2002 included in this prospectus have been prepared using a new basis of accounting resulting from the acquisition of VeriFone, Inc. (predecessor) by VeriFone Holdings, Inc. (successor) which is different from the basis of accounting used to prepare the predecessor's financial statements.

On May 4, 2005, VeriFone Holdings, Inc. completed its initial public offering.

Net Revenues

We generate net revenues through the sale of our electronic payment systems and solutions that enable electronic transactions, which we identify as System Solutions, and, to a lesser extent, warranty and support services and customer specific application development, which we identify as Services.

Our net revenues grew from $295.6 million in the year ended October 31, 2002, our first full year of operations following our acquisition from Hewlett-Packard, to $339.3 million in the year ended October 31, 2003 and $390.1 million in the year ended October 31, 2004. For the nine months ended July 31, 2005, net revenues were $354.9 million, an increase of 26.1% as compared to the corresponding period of the prior year. These increases resulted from the continuing growth in worldwide demand for electronic payment solutions. Improved data transfer speeds made possible by proliferating wireline and wireless broadband infrastructure development are fueling demand for advanced electronic payment solutions with greater processing speed and memory to run new, more robust value-added applications at the point of sale, as well as growth in consumer-activated system solutions, such as, particularly in the U.S., PIN-based debit solutions. In addition, we have gained market share in certain international markets as the result of our strong brand and extensive certifications, as well as our investments in research and development and in market development. In addition, developing security and interoperability standards, such as EMV internationally, are driving replacement of electronic payment systems, particularly in Europe. We expect that the ongoing need for merchants and financial institutions to meet EMV standards will continue to favorably affect our International sales, particularly in Europe for at least the next two years.

Historically, a significant portion of our net revenues has resulted from purchases made by a limited number of customers, including distributors and ISOs. This customer concentration has diminished over time. In the year ended October 31, 2002, our ten largest customers accounted for approximately 41.6% of our net revenues, which fell to 36.3% in the year ended October 31, 2004, a year in which only one customer accounted for more than 10% of our net revenues. For the nine months ended July 31, 2005, our ten largest customers accounted for approximately 33.0% of our net revenues.

Gross Profit

Gross profit depends primarily on the level of our net revenues, as well as third party contract manufacturing costs, the amortization of core and developed technology and the relative mix of net revenues between our North American and International businesses. We commenced third party outsourcing of our manufacturing processes in July 2001, which enabled us to achieve improvement in gross profit as a percentage of our net revenues beginning in the year ended October 31, 2002. In addition, we amortize the fair value of our core and developed technology related to acquisitions on a straight-line basis over estimated useful lives of 1.5 to five years, depending on the product. Scheduled amortization of the fair value of our core and developed technology is $1.6 million, $5.2 million, $3.2 million, $0.8 million and $0.5 million in the three months ending October 31, 2005 and the years ending October 31, 2006, 2007, 2008 and 2009, respectively. Our gross profit as a percentage of net revenues has tended to be higher in North America than internationally. Consequently, differences in relative growth rates between our North American and International segments may have a significant effect on our reported gross profit percentages. In general, we expect our International gross profit percentage will improve as the scale of our international operations grows, as our investments in research and development yield new product platforms targeted to the international requirements and as we implement plans to increase our proportion of direct sales in international markets over the next several years. However, our International gross profit percentage may decline in certain periods, particularly as we introduce new products and enter into new markets and overall, we anticipate that our International gross profit percentage will remain lower than our gross profit percentage in our North American business for at least the next several years.

Operating Expenses

Our research and development expense includes salaries and other costs related to product development and research activities. Substantially all of these costs are expensed as incurred. The remaining development costs we incur during the software application development stage are capitalized and amortized over the estimated useful life of the developed software, usually three to five years. During the years ended October 31, 2002, 2003 and 2004, our research and development expense as a percentage of net revenues was 10.3%, 8.3% and 8.6%, respectively. During the nine months ended July 31, 2005, our research and development expense as a percentage of net revenues was 8.5% as compared to 8.6% for the corresponding period of the previous year. We expect our research and development expense in the year ending October 31, 2006 to remain in approximately the same range as a percentage of net revenues as we experienced in the three years ended October 31, 2004.

Our sales and marketing expense is primarily for personnel related expenses and marketing programs such as promotional events, trade shows and sales support. During the years ended October 31, 2002, 2003 and 2004, our sales and marketing expense as a percentage of net revenues was 13.8%, 11.8% and 11.4%, respectively. During the nine months ended July 31, 2005, our sales and marketing expenses as a portion of net revenues was 10.8% as compared to 11.5% for the corresponding period of the prior year. We expect our sales and marketing expense in the year ending October 31, 2006 to decrease as a percentage of net revenues from the level in the year ended October 31, 2004 as we gain operating leverage although we may increase sales and marketing expense as we develop more direct sales channels internationally.

Our general and administrative expense includes management and administrative personnel, as well as outside legal, accounting and consulting services. During the years ended October 31, 2002, 2003 and 2004, our general and administrative expense as a percentage of net revenues was 12.3%, 7.4% and 6.5%, respectively. During the nine months ended July 31, 2005 our general and administrative expense as a percentage of net revenues was 6.1% as compared to 6.8% for the corresponding period of the previous year. We expect our general and administrative expense in the year ending October 31, 2006 to increase as we incur additional costs associated with being a publicly traded company, including higher legal, insurance and financial reporting expenses as well as the expense of complying with Section 404 of the Sarbanes-Oxley Act and additional stock compensation costs.

The amortization of purchased intangible assets relates to our acquisitions. We amortize the value assigned to customer relationships on a straight-line basis over an average estimated useful life of up to 5 years. We amortize the value assigned to our trade name on a straight-line basis over an average estimated useful life of five years. Scheduled amortization of purchased intangible assets related to our acquisitions is $1.2 million, $4.6 million, $3.4 million, $0.8 million, $0.3 million and $0.1 million in the three months ending October 31, 2005 and the years ending October 31, 2006, 2007, 2008, 2009 and 2010, respectively.

Stock-based Compensation

Effective May 1, 2005, we early adopted the fair value recognition and measurement provisions of SFAS 123(R), *Share-Based Payment*. SFAS 123(R) is applicable for stock-based awards exchanged for employee services and in certain circumstances for nonemployee directors. We elected to adopt the modified-prospective-transition method, as provided by SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this transitional method, we are required to record compensation expense for all awards granted after the date of adoption using grant-date fair value estimated in accordance with the provisions of SFAS 123(R) and for the unvested portion of previously granted awards as of May 1, 2005 using the grant-date fair value estimated in accordance with the provisions of SFAS 123.

Income Taxes

We are currently subject to U.S. statutory tax rates approximating 39% on the majority of our income. In light of our growing International operations, we are developing a structure designed to align our taxable income with tax jurisdictions where that income is generated. We expect to implement this structure for the year ending October 31, 2006. Following implementation of our plans, we expect to reduce our average worldwide statutory tax rate to a percentage in the low thirties.

We are currently subject to two tax assessments in Brazil with respect to our Brazilian subsidiary, which are described under the caption "Business Legal Proceedings" elsewhere in this prospectus.

Our Operating Segments

We operate in two segments: (1) North America and (2) International. Net revenues and operating income (loss) of each business segment reflect net revenues generated within the segment, standard cost of System Solutions net revenues, actual cost of services net revenues and expenses that directly benefit only that segment. Corporate net revenues and operating income (loss) reflect amortization of purchased intangible assets, stock-based compensation, in-process research and development expense, and amortization of step ups in the fair value of inventories, equipment and improvements and deferred revenue resulting from acquisitions. Corporate income (loss) also reflects the difference between the actual and standard cost of System Solutions net revenues and shared operating costs that benefit both segments, predominately research and development expenses and supply chain management. We present segment information below within each period-to-period discussion of our results of operation.

Results of Operations

The following tables set forth, for the periods indicated, certain statements of operations data as reported and as a percentage of total net revenues. For the purposes of this management's discussion and analysis only, our results for the year ended October 31, 2002 discussed below represent the combination of the statement of operations for the eight months prior to the acquisition of our predecessor on July 1, 2002 and the four months of post acquisition operations. The financial data set forth below are not necessarily indicative of the results of future operations and should be read in conjunction with our historical consolidated financial statements and accompanying notes included elsewhere in this prospectus.

	Predecessor (1)	Successor (2)	Combined	Successor (2)			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005
	(in thousands)						
Net revenues:							
System Solutions	$ 162,233	$ 95,762	$ 257,995	$ 292,824	$ 344,639	$ 248,481	$ 314,791
Services	22,123	15,475	37,598	46,507	45,449	32,988	40,086
Total net revenues	184,356	111,237	295,593	339,331	390,088	281,469	354,877
Cost of net revenues: (3)							
Cost of System Solutions net revenues excluding amortization of purchased core and developed technology assets	111,333	70,176	181,509	170,647	205,381	145,924	187,509
Amortization of purchased core and developed technology assets		4,679	4,679	14,148	9,745	7,726	5,255
Total cost of System Solutions net revenues	111,333	74,855	186,188	184,795	215,126	153,650	192,764
Services	14,209	10,303	24,512	29,644	26,511	18,963	20,954
Total cost of net revenues	125,542	85,158	210,700	214,439	241,637	172,613	213,718
Gross profit (4)	58,814	26,079	84,893	124,892	148,451	108,856	141,159
Operating expenses (3):							
Research and development	20,037	10,322	30,359	28,193	33,703	24,255	30,351
Sales and marketing	26,848	13,925	40,773	40,024	44,002	32,246	38,310
General and administrative	26,093	10,342	36,435	25,039	25,503	19,026	21,607
Amortization of purchased intangible assets		3,399	3,399	10,200	10,200	7,650	3,808
In-process research and development		17,934	17,934				
Total operating expenses	72,978	55,922	128,900	103,456	113,408	83,177	94,076
Operating income (loss)	(14,164)	(29,843)	(44,007)	21,436	35,043	25,679	47,083
Interest expense	(2,407)	(3,794)	(6,201)	(12,456)	(12,597)	(8,523)	(11,758)
Other income (expense), net	1,694	(4,904)	(3,210)	3,557	(11,869)	(11,815)	(6,313)
Income (loss) before income taxes	(14,877)	(38,541)	(53,418)	12,537	10,577	5,341	29,012
Provision (benefit) for income taxes	4,593	(4,509)	84	12,296	4,971	2,510	7,833
Net income (loss)	(19,470)	(34,032)	(53,502)	241	5,606	2,831	21,179
Accrued dividends and accretion on preferred stock		5,218	5,218	6,916	4,959	4,959	

	Predecessor (1)	Successor (2)	Combined	Successor (2)			
Net income (loss) attributable to common stockholders	$ (19,470)	$ (39,250)	$ (58,720)	$ (6,675)	$ 647	$ (2,128)	$ 21,179

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	Predecessor (1)	Successor (2)	Combined	Successor (2)			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005
			(in thousands)				
Net revenues:							
System Solutions	88.0%	86.1%	87.3%	86.3%	88.3%	88.3%	88.7%
Services	12.0	13.9	12.7	13.7	11.7	11.7	11.3
Total net revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of net revenues (3):							
Cost of System Solutions net revenues excluding amortization of purchased core and developed technology assets	60.4	63.1	61.4	50.3	52.6	51.9	52.8
Amortization of purchased core and developed technology assets		4.2	1.6	4.2	2.5	2.7	1.5
Total cost of System Solutions net revenues	60.4	67.3	63.0	54.5	55.1	54.6	54.3
Services	7.7	9.3	8.3	8.7	6.8	6.7	5.9
Total cost of net revenues	68.1	76.6	71.3	63.2	61.9	61.3	60.2
Gross profit (4)	31.9	23.4	28.7	36.8	38.1	38.7	39.8
Operating expenses (3):							
Research and development	10.9	9.3	10.3	8.3	8.6	8.6	8.5
Sales and marketing	14.6	12.5	13.8	11.8	11.4	11.5	10.8
General and administrative	14.1	9.2	12.3	7.4	6.5	6.8	6.1
Amortization of purchased intangible assets		3.1	1.1	3.0	2.6	2.7	1.1
In-process research and development		16.1	6.1				
Total operating expenses	39.6	50.2	43.6	30.5	29.1	29.6	26.5
Operating income (loss)	(7.7)	(26.8)	(14.9)	6.3	9.0	9.1	13.3
Interest expense	(1.3)	(3.4)	(2.1)	(3.7)	(3.2)	(3.0)	(3.3)
Other income (expense), net	0.9	(4.4)	(1.1)	1.1	(3.1)	(4.2)	(1.8)
Income (loss) before income taxes	(8.1)	(34.6)	(18.1)	3.7	2.7	1.9	8.2
Provision (benefit) for income taxes	2.5	(4.0)		3.6	1.3	0.9	2.2
Net income (loss)	(10.6)	(30.6)	(18.1)	0.1	1.4	1.0	6.0
Accrued dividends and accretion on preferred stock		4.7	1.8	2.1	1.2	1.8	
Net income (loss) attributable to common stockholders	(10.6)%	(35.3)%	(19.9)%	(2.0)%	0.2%	(0.8)%	6.0%

(1)

Predecessor company was owned by Hewlett-Packard Company until acquired on July 20, 2001 by an entity affiliated with Gores Technology Group, LLC. Financial information presented reflects adjustment of assets and liabilities to then-fair value at July 20, 2001, which became the basis for amounts included in results of operations from July 20, 2001 until June 30, 2002.

(2)

On July 1, 2002, VeriFone was recapitalized whereby certain investment funds affiliated with GTCR became the majority stakeholders while the existing equity investor, an entity affiliated with Gores Technology Group, LLC, retained an ownership interest in the company. Financial information presented reflects adjustment of assets and liabilities to fair value as of July 1, 2002, which became the basis for amounts included in results of operations starting July 1, 2002.

(3)

We adopted the fair value recognition and measurement provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, effective May 1, 2005 using the modified-prospective transition method. For periods prior to May 1, 2005 we followed the intrinsic value recognition and measurement provisions of Accounting Principles Board Opinion

No. 25, *Accounting for Stock Issued to Employees*, or APB 25. For further information see Note 2 to the financial statements. The portion of stock-based compensation allocated to each category of expenses for each period is presented below.

	Predecessor	Successor	Combined	Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005
	(in thousands)						
Cost of net revenues System Solutions	$	$	$	$	$	$	$ 73
Research and development							185
Sales and marketing							355
General and administrative		17	17	81	400	66	302
	$	$ 17	$ 17	$ 81	$ 400	$ 66	$ 915

(4)

Gross profit for our System Solutions and Services is presented below:

	Predecessor	Successor	Combined	Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005
	(in thousands)						
System Solutions	$ 50,900	$ 20,907	$ 71,807	$ 108,029	$ 129,513	$ 94,831	$ 122,027
Services	7,914	5,172	13,086	16,863	18,938	14,025	19,132
	$ 58,814	$ 26,079	$ 84,893	$ 124,892	$ 148,451	$ 108,856	$ 141,159

(5)

Gross profit as a percentage of our System Solutions and our Services net revenues, respectively, is presented below:

Predecessor	Successor	Combined	Successor			
Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
			2003	2004	2004	2005

	Predecessor	Successor	Combined	Successor			
			(in thousands)				
System Solutions	31.4%	21.8%	27.8%	36.9%	37.6%	38.2%	38.8%
Services	35.8%	33.4%	34.8%	36.3%	41.7%	42.5%	47.7%

Nine Months Ended July 31, 2005 Compared to Nine Months Ended July 31, 2004

Net Revenues

We generate net revenues through the sale of our electronic payment systems and solutions that enable electronic transactions, which we identify as System Solutions, and to a lesser extent, warranty and support services and customer specific application development, which we identify as Services.

Net revenues, which include System Solutions and Services, are summarized in the following table (in thousands, except percentages):

	Nine Months Ended July 31,		Variance	Variance
	2004	2005	In Dollars	In Percent
System Solutions	$ 248,481	$ 314,791	$ 66,310	26.7%
Services	32,988	40,086	7,098	21.5%
Total	$ 281,469	$ 354,877	$ 73,408	26.1%

System Solutions. The growth in System Solutions net revenues in the nine months ended July 31, 2005, compared with the comparable period in 2004, was primarily due to international growth of $47.4 million, or 50.9%, to $140.3 million. Net revenues in Latin America increased by $19.4 million, or 64.3%, to $49.7 million as compared to the corresponding period of the previous year. Europe grew net revenues by $20.4 million, or 45.7%, to $65.1 million as compared to the corresponding period of the previous year. Net revenues in Asia increased by $7.4 million, or 40.6%, to $25.6 million for the nine months ended July 31, 2005 as compared to the corresponding period of the previous year. Strong demand from emerging countries in all geographies, the need for customers to comply with EMV requirements, and availability of the Vx Solutions, our latest generation of System Solutions, were the drivers of growth.

North America System Solutions net revenues for the nine months ended July 31, 2005 grew $18.9 million, or 12.1%, to $174.5 million as compared to the corresponding period of the previous year. This increase was primarily attributable to the ongoing replacement of the installed base with System Solutions that have IP communication and PIN-based debit capabilities. Sales to multi-lane retail and petroleum companies and convenience stores were strong in the nine months ended July 31, 2005. QSR net revenues partially benefited from a deployment for a major customer which is nearing completion.

Services. Services net revenues growth in the nine months ended July 31, 2005, as compared with the corresponding period of the previous year, was driven by an increase of $7.9 million in North America, offset by a decline in International services net revenues of $0.7 million. Of the North American growth, $1.2 million of the increase was directly attributable to GO Software, which we recently acquired. The primary areas of growth in North America were helpdesk, onsite maintenance, repair, and deployments. Custom application software services decreased both domestically and internationally due to normal fluctuations in demand for these services.

Gross Profit

The following table shows the gross profit for System Solutions and Services (in thousands, except percentages):

	Nine Months Ended July 31,			
	Amount		Gross Profit Percentage	
	2004	2005	2004	2005
System Solutions	$ 94,831	$ 122,027	38.2%	38.8%
Services	14,025	19,132	42.5%	47.7%
Total	$ 108,856	$ 141,159	38.7%	39.8%

System Solutions gross profit percentage for the nine months ended July 31, 2005 increased by 0.6 percentage points over the comparable period in the previous year. Amortization of purchased core and developed technology assets was 1.7% of System Solutions net revenues in the nine months ended July 31, 2005 and 3.1% of System Solutions net revenues in the nine months ended July 31, 2004, as several purchased core and developed technology assets became fully amortized. A more favorable climate for purchasing components as compared to the nine months ended July 31, 2004 resulted in an improvement of 1.1 percentage points. Better management of freight and logistics improved gross profit percentage by 0.6 percentage points. Partially offsetting these improvements were higher inventory obsolescence charges, primarily driven by the product transition to the Vx Solutions, accounting for a 1.7 percentage point decline, and higher warranty charges, accounting for a 0.6 percentage point decline. The negative impact of a higher weighting in international shipments and unfavorable domestic product mix was mostly offset by improved international product mix and margin due to the introduction of the Vx Solutions.

Services gross profit percentage increased by 5.2 percentage points in the nine months ended July 31, 2005 over the comparable period of the prior year. The improvement was due to a more favorable mix of services provided in North America towards helpdesk, onsite maintenance and installation. This improvement was offset in part by a decline in sales of some high margin software applications internationally and losses in certain service contracts in Latin America.

Research and Development Expense

Research and development, or R&D, expense for the nine months ended July 31, 2004 and 2005 are summarized in the following table (in thousands, except percentages):

	Nine Months Ended July 31,		Variance In Dollars	Variance In Percent
	2004	2005		
Research and development	$ 24,255	$ 30,351	$ 6,096	25.1%
Percentage of net revenues	8.6%	8.5%		

R&D expense in the nine months ended July 31, 2005, increased compared with the corresponding period in the prior year, primarily due to $2.5 million of increased R&D spending associated with the introduction of the Vx Solutions in our international markets, and approximately $1.1 million directly attributable to the GO Software business, which we recently acquired, as well as investments in wireless communication technologies such as WiFi, CDMA and GPRS, and new solutions in multi-lane retail and petroleum vertical businesses.

Sales and Marketing Expense

Sales and marketing expense for the nine months ended July 31, 2004 and 2005 are summarized in the following table (in thousands, except percentages):

	Nine Months Ended July 31, 2004	Nine Months Ended July 31, 2005	Variance In Dollars	Variance In Percent
Sales and marketing	$ 32,246	$ 38,310	$ 6,064	18.8%
Percentage of net revenues	11.5%	10.8%		

Sales and marketing expense in the nine months ended July 31, 2005, increased compared with the comparable period in the prior year, due to a $3.2 million international investment in personnel and programs to address new sales opportunities and introduce the Vx Solutions, $1.6 million of expenses to upgrade domestic sales management and increase personnel, $0.6 million of expenses directly attributable to GO Software, which we recently acquired, and $0.4 million of stock-based compensation expense.

General and Administrative Expense

General and administrative expense for the nine months ended July 31, 2004 and 2005 are summarized in the following table (in thousands, except percentages):

	Nine Months Ended July 31, 2004	Nine Months Ended July 31, 2005	Variance In Dollars	Variance In Percent
General and administrative	$ 19,026	$ 21,607	$ 2,581	13.6%
Percentage of net revenues	6.8%	6.1%		

General and administrative expense in the nine months ended July 31, 2005 increased, compared with the nine months ended July 31, 2004, due to $1.2 million of expenses related to the defense and settlement of the claims brought by Verve, $1.0 million of expenses related to the preparation for the requirements of operating as a public company, $0.7 million of higher facility expenses, $0.9 million of expenses to support higher volumes of business domestically and internationally, $0.4 million of expenses from the inclusion of GO Software, and $0.2 million of stock compensation expense. Partially offsetting these expense increases were a $1.6 million one-time credit for the favorable resolution of a payroll tax contingency, $0.6 million reduction in the bad debt provision and a $0.3 million net reduction in sales tax assessments.

Amortization of Purchased Intangible Assets

For the nine months ended July 31, 2005, amortization of purchased intangible assets decreased $3.9 million, to $3.8 million from $7.7 million for the comparable period in fiscal 2004. The decrease is due to several purchased intangible assets having been fully amortized during the fiscal year ended October 31, 2004, offset in part by the amortization of intangibles relating to the acquisition of GO Software, which was accrued on March 1, 2005.

Interest Expense

For the nine months ended July 31, 2005, interest expense increased $3.3 million to $11.8 million from $8.5 million for the comparable period in fiscal 2004. The increase in interest expense was attributable to higher debt balances following our June 2004 recapitalization, partially offset by the repricing of our Term B Loan and the repayment of our Second Lien Loan in May 2005 with a portion of the proceeds that we received from our initial public offering.

Other Income (Expense), Net

Other income (expense), net in the nine months ended July 31, 2005 was $6.3 million and resulted primarily from expensing the unamortized portion of debt issuance costs of $2.7 million and the prepayment premium of $2.2 million associated with the repayment of the second lien loan under our secured credit facility. It also included approximately $0.5 million in fees for repricing our Term B loan, $0.2 million associated with the write-off of debt issuance costs relating to the $5.0 million prepayment of our Term B loan, $0.3 million in costs related to settlement of the claims brought by Verve and $0.5 million in foreign currency contract and transaction losses. Other income (expense), net in the nine months ended July 31, 2004 was $11.8 million and resulted primarily from the write-off of $8.4 million of the unamortized debt discount and prepaid fees on the subordinated debt and an early extinguishment fee of $1.4 million due to our June 2004 recapitalization.

Provision for Income Tax

We recorded a provision for income taxes of $7.8 million for the nine months ended July 31, 2005 compared to $2.5 million for the comparable period in fiscal 2004. The increase in the provision was primarily attributable to increases in our pre-tax income, partially offset by a decrease in the effective tax rate. For the nine months ended July 31, 2005 our effective tax rate was 27.0% as compared to 47.0% for the comparable period in 2004. The decline in the effective tax rate is primarily attributable to estimated reductions in the valuation allowance for deferred taxes in fiscal 2005 as compared to an increase in the valuation allowance in fiscal 2004.

As of July 31, 2005 we have recorded $17.0 million of net deferred tax assets, the realization of which is dependent on future domestic and certain foreign taxable income. Although realization is not assured, management believes that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable may increase or decrease in subsequent periods when we reevaluate the underlying basis for our estimates of future domestic and certain foreign taxable income.

We reduced our income tax liability by $7.6 million in the third quarter of fiscal 2005 due to the favorable resolution of a pre-acquisition income tax contingency and related accrued interest. The reduction in tax liability of $7.6 million resulted in a reduction of $6.9 million in goodwill and a benefit to the income tax provision in the amount of $0.7 million for interest accrued subsequent to July 1, 2002.

Segment Information

The following table reconciles segmented net revenues and operating income to totals for the nine months ended July 31, 2004 and 2005. Corporate net revenues and operating income (loss) reflect amortization of purchased intangible assets, stock-based compensation, in-process research and development expense, and amortization of step ups in the fair value of inventories, equipment and improvements and deferred net revenues resulting from acquisitions. Corporate income (loss) also reflects the difference between the actual and standard cost of System Solutions net revenues and shared operating costs that benefit both segments, predominately research and development expenses and supply chain management.

	Nine Months Ended July 31,	
	2004	2005
	(in thousands)	
Net revenues:		
North America	$ 183,313	$ 210,154
International	98,563	145,218
Corporate	(407)	(495)
Total net revenues	$ 281,469	$ 354,877
Operating income:		